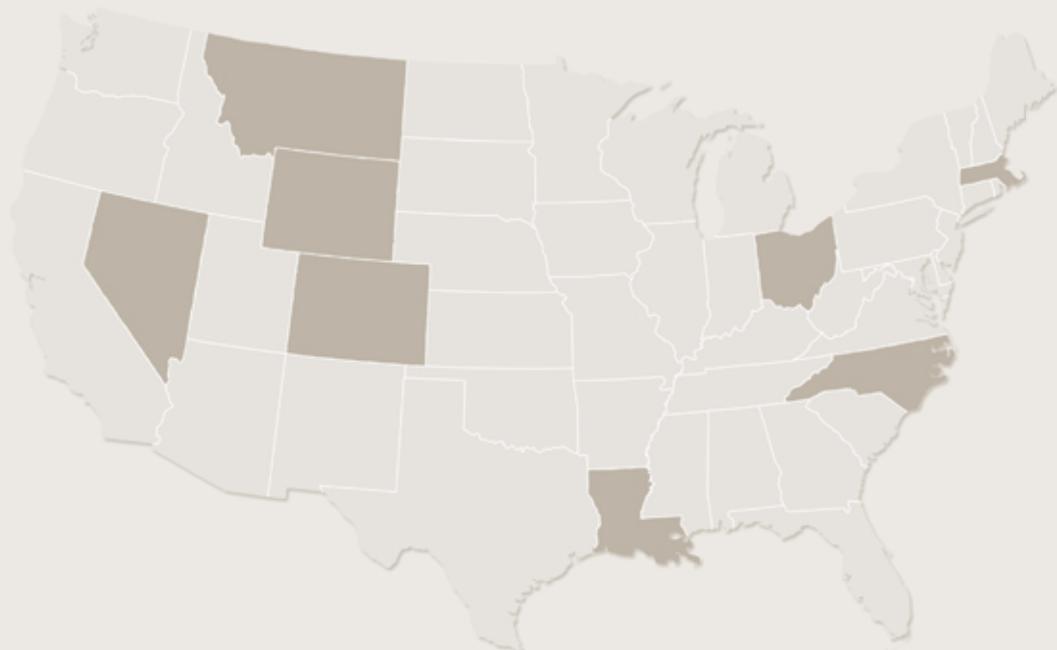


HIGHER EDUCATION SPENDING AND THE STATE FISCAL STABILIZATION FUND, PART 3

State Case Studies

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FEDERAL EDUCATION BUDGET PROJECT

NEW AMERICA FOUNDATION

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By late 2008, the United States was in the midst of its most severe economic recession since the 1930s, brought on by a collapse in real estate prices and exacerbated by the failure of many large banks and financial institutions. Heeding calls from economists, Congress and the Obama administration passed an historic law in early 2009 to stimulate the economy with \$862 billion in new spending and tax cuts.

This law, the American Recovery and Reinvestment Act of 2009 (ARRA), included nearly \$100 billion in one-time funding for new and existing education programs, an historic sum given that annual appropriations for federal education programs at the time were approximately \$60 billion. The largest single education program included in the law was the State Fiscal Stabilization Fund, a new \$48.6 billion program that provided direct grant aid to state governments in fiscal years 2009, 2010, and 2011. The program was designed to help states maintain support for both public K-12 and higher education funding that they might have otherwise cut in response to budget shortfalls brought on by the economic downturn.

Now that fiscal year 2011 has ended, we can better understand how public institutions of higher education actually used the State Fiscal Stabilization Funds. Specifically, this paper examines how eight states and their public institutions of higher education used the funds to support higher education and what will happen to these institutions' budgets in fiscal year 2012 when the funds are no longer available. It uses information collected through phone interviews with officials in state higher education offices and at public institutions of higher education to determine how states distributed the funds and how institutions actually used them. Using this information, we can make some general conclusions about how the ARRA funds actually affected higher education in America and what is likely to happen once the funds are no longer available. While every state used the funds differently, we find that the states we studied used the vast majority of their funds to support salaries and benefits for instructional staff. And while these funds played an important part in keeping these institutions of higher education financially solvent in 2009, 2010, and 2011, many institutions will face budgetary challenges in 2012 and beyond.

This paper is the third in a three-part series examining these trends. The first paper in this series (*The State Fiscal*

Stabilization Fund and Higher Education Spending in the States, Part 1, December 2010) explored how state spending on higher education fluctuated during the implementation of the State Fiscal Stabilization Fund (SFSF) and the second paper (*The State Fiscal Stabilization Fund and Higher Education Spending in the States, Part 2*, May 2011) focused on how states divided their SFSF monies between K-12 and higher education in each year.

The State Fiscal Stabilization Fund and State Higher Education Budgets

Background

Congress intended the State Fiscal Stabilization Fund to bolster state budgets for K-12 and higher education by providing federal funds to fill budget shortfalls caused by lower-than-anticipated tax revenues. The program also required states to agree to pursue four areas of reform that were primarily focused on K-12 education — called “assurances” in the law — through their use of the funds. When the president signed the ARRA, some states were already facing funding shortfalls as a result of the economic downturn, while others were projecting shortfalls in the near future. Lawmakers targeted education for the grant aid because public schools and institutions of higher education employ a significant proportion of the workforce in every state. By ensuring that K-12 and higher education were well supported, Congress could theoretically ensure that a significant number of jobs would be saved during the economic downturn.¹

Congress divided the State Fiscal Stabilization Fund (SFSF) into two parts — Education Stabilization funds, which were to be used to support education purposes only, and Government Services funds, which were to be used to support other government services in addition to education, like public safety or health care. Education Stabilization funds accounted for \$39.8 billion of the \$48.6 billion

SFSF. The U.S. Department of Education distributed the funds according to a formula defined in the law based on each state's share of the national 5-to-24 year-old population and each state's total population.² This means that Education Stabilization funds were distributed based on population, rather than which states were facing the most severe funding shortfalls and would therefore need the most federal support.

Maintenance-of-Effort Provision

Lawmakers designed the Education Stabilization fund under the assumption that states would not be able to maintain then-current levels of spending due to the economic recession and would need federal assistance to maintain their education programs.³ While some states did need the funds more than others, Congress distributed the funds to all states to garner support from a majority of lawmakers. Congress also wanted to ensure that states would not take advantage of the new federal funds to cut state funding for K-12 and higher education by more than the magnitude of their budget shortfalls. In other words, lawmakers wanted to prevent states from cutting their education budgets by more than they would have absent the federal funds.⁴ To accomplish this, Congress included a “maintenance-of-effort” provision in the law that required states to maintain education spending for K-12 and higher education at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011.⁵ States could then use the Education Stabilization funds to fill the gap between what they spent on higher education in 2006 and the greater of 2008 or 2009 spending levels. The provision effectively put the floor on state spending for education at 2006 levels.⁶ (The first paper in this series focused on how states chose to make cuts to their higher education spending as a result of the State Fiscal Stabilization Fund. To learn more, read *The State Fiscal Stabilization Fund and Higher Education Spending in the States, Part 1*, December 2010.)

Division Between K-12 and Higher Education

The Education Stabilization fund requires that states use the funds for both K-12 and higher education in proportion to each sector's share of a state's budget shortfall. It is important to keep in mind that when a state faces a budget shortfall, its legislature decides how to adjust spending to bring the budget into balance. State lawmakers have some flexibility over the extent to which they will reduce funding for K-12 or higher education (or both) in response to budget shortfalls. In a state where the legislature made a 60

percent cut to K-12 spending and a 40 percent cut to higher education spending compared to the previous year, the SFSF regulations require that state to spend 60 percent of its allocated Education Stabilization funds on K-12 education and 40 percent on higher education.⁷ States where the legislature chose to spare higher education funding from spending cuts could use the funds to fill only the gaps created by cuts to K-12 education.

Congress intended the State Fiscal Stabilization Fund to bolster state budgets for K-12 and higher education by providing federal funds to fill budget shortfalls caused by lower-than-anticipated tax revenues.

Additionally, states could choose to divide the funds between both fiscal years 2009 and 2010 or use them in only one of the two years. As a result, states that had no predicted budget shortfall in 2009 could have opted to use all their Education Stabilization funds in 2010, while those with anticipated shortfalls in both years could spread the funds between the two years. States that did not use all of their funds in 2009 and 2010 could use them in 2011 to fill budget gaps in K-12 and higher education in the same manner. This paper focuses on how states ultimately divided their Education Stabilization funds between K-12 and higher education in each fiscal year.

In accordance with program requirements, each of the 50 states and the District of Columbia submitted an application to the U.S. Department of Education by July 1, 2009, stating how much of their Education Stabilization fund allocation they would need to restore funding levels for K-12 and higher education in fiscal years 2009 and 2010. They refer to this as the “restoration amount.” States determined these numbers by calculating the difference between projected spending on K-12 and higher education in each year and the greater of 2008 or 2009 spending on both sectors. For example, if a state spent \$800 million on higher education in 2009, and its projected spending for higher education in 2010 was \$650 million (which was at or above 2006 spending levels for higher education), then the state could opt to use up to \$150 million of its Education Stabilization funding for higher education in

2010. In these applications, states also reported how much, if any, of their Education Stabilization funds they would leave unspent until fiscal year 2011. Any funds a state did not use to restore state funding in fiscal years 2009, 2010, or 2011 would be distributed directly to K-12 school districts in fiscal year 2011 via existing formulas under the Title I program of the Elementary and Secondary Education Act, which provides federal grant aid to school districts with low-income students. (States submitted updated SFSF applications in March of 2011 specifying how they divided the funds between K-12 and higher education in 2011.)

Once the Department of Education approved each state's application and gave them access to the funds, each state was able to determine how and when their institutions of higher education received the funds. While some states made the funds immediately available to their institutions and allowed them to draw down the funds as necessary, others distributed the funds in monthly or quarterly bursts based on reports from their institutions. Similarly, some states mandated how their institutions used the funds while others allowed the institutions to determine how they would use them.

Conducting the Case Studies

Every state implemented its Education Stabilization funds for higher education differently and federal reporting requirements do not include a sufficient level of detail as to how the funds were used. As a result, determining how states used the funds to support higher education requires a more qualitative and focused approach.

We used data collected for the second paper in this series on the division of Education Stabilization funds between K-12 and higher education to identify states that used a relatively large percent of their funds to support higher education (see *The State Fiscal Stabilization Fund and Higher Education Spending, Part 2*, May 2011). In selecting the final eight states, we ensured that they were diverse both in geographical region and size. The final states selected for the case studies were Colorado, Louisiana, Massachusetts, Montana, Nevada, North Carolina, Ohio, and Wyoming. We conducted telephone interviews with officials at state departments of higher education, state boards of regents' offices, and administration offices for public higher education institutions between June and September of 2011. These interviews included questions on the budgetary situation for each state's higher education system both during the imple-

mentation of the Education Stabilization funds and after, how the state determined the funds would be distributed, how the institutions used the funds, and what will happen to their higher education institutions once the funds are gone. Based on the data collected via these phone conversations and any supporting documentation from these conversations, we assembled a case study for each state. Those case studies can be found starting on page 7.

The previous papers in this series showed that states cut their support for higher education during the implementation of the Education Stabilization funds. In some states, funding for higher education fell both in absolute terms and as a percentage of total state spending. At the same time, few states dedicated a significant amount of their Education Stabilization funds to higher education. This paper focuses on eight states that used a substantial amount of these funds on higher education, meaning that they also cut state funding for higher education to as low as 2006 levels (or lower if they were able to get a waiver) to make room for the Education Stabilization funds. Thus, it is possible that the states that used their Education Stabilization funds primarily for K-12 education made smaller cuts to higher education or otherwise better maintained higher education spending.

Trends in State SFSF Higher Education Spending

Based on these case studies, it is clear that the Education Stabilization funds played an important role in supporting state higher education budgets in 2009, 2010, and 2011. Many of the state officials we interviewed said that without these federal funds, their institutions would have faced significant financial troubles that would have meant more staff lay-offs and tuition increases. Nevertheless, Education Stabilization funds were insufficient in many cases to completely offset the budget shortfalls states experienced in the past three years. This trend was most pronounced in 2011, suggesting that state tax revenues did not bounce back by the end of fiscal year 2011 when the funds expired, leaving states in greater financial trouble than could be overcome by the Education Stabilization funds alone. Because the Education Stabilization funds weren't sufficient to compensate for the deep cuts to higher education funding, institutions still had to find savings through layoffs, furloughs, pay freezes, deferred maintenance, and program cuts. Some institutions took this opportunity to make their institutions more efficient through careful cuts, investments, and restructuring that

would save money down the road. However, the availability of Education Stabilization funds meant that institutions did not need to pursue these efforts to the extent that they otherwise would have.

It is clear that the Education Stabilization funds played an important role in supporting state higher education budgets in 2009, 2010, and 2011. Many of the state officials we interviewed said that without these federal funds, their institutions would have faced significant financial troubles that would have meant more staff lay-offs and tuition increases.

When we asked officials at several institutions about what would have happened without the Education Stabilization funds, many were unable to answer because they did not know to what degree state lawmakers would have cut their budgets had the federal funds not been available. In fact, many of them believed their state lawmakers would not have cut state funding for higher education as drastically as they did had the Education Stabilization funds not been there to fill the gap. In that case, however, overall funding available for higher education would have been less because federal funds would not have been available to supplement state support. In other words, though state lawmakers would likely have made smaller cuts to higher education funds absent the Education Stabilization funds, total support for higher education would still have been lower.

These case studies suggest that states tended to make some similar choices and adopt some similar practices in how they used and allocated the funds. Some of these similarities stem from U.S. Department of Education guidance encouraging states to spend the funds in specific ways. However, the federal government did not go so far as to place specific requirements on how the funds could be spent, though it did prohibit some expenditures, like those on athletic facilities.

Perhaps most significantly, among the states selected for this study, most required their institutions to spend all or a predominant portion of their Education Stabilization funds

on salary and benefit-related expenses. Most states limited these expenditures to instructional and other student-related faculty and staff only. This finding is unsurprising given that guidance from the U.S. Department of Education on how states should use the Education Stabilization funds encouraged states and institutions to use the funds to save and create jobs. And indeed, most officials we spoke with said that they believed the Education Stabilization funds did save jobs on their campuses. Absent the federal funds, state budget cuts would have been more severe and caused institutions to lay off more staff.

The U.S. Department of Education's guidance also discouraged states from using the funds to support ongoing expenses. Staff and faculty salaries and benefits are inherently ongoing expenses because institutions will have to continue to pay those salaries and benefits after the federal funds run out — they are not one-time costs. Because most states required their institutions to use their Education Stabilization funds for these types of expenses, it appears that they were not very concerned with avoiding ongoing expenses as they used the funds.

The Department of Education's guidance presented two inherently conflicting goals: institutions were to use the funds to both save and create jobs *and* to avoid ongoing expenditures. Though some states did make a point of focusing at least part of their spending on one-time expenses like improvements to instructional facilities, most chose not to heed the Department of Education's guidance regarding ongoing expenditures like salaries.

Institutions in some states, however, did follow the Department of Education's guidance and used their funds for other purposes than to support staff salaries and benefits. Wyoming's institutions, for example, used a large portion of their Education Stabilization funds for facilities maintenance and improvement. Louisiana gave its institutions discretion to decide how they would divide their funds between salaries and need-based scholarships. And Massachusetts gave its institutions autonomy to spend their funds however they deemed necessary within the constraints of federal guidance. This allowed institutions like Salem State University to use the funds for one-time expenditures, as encouraged in the federal guidance, that in the long term would lower costs. Such expenditures included replacing lighting systems to improve energy efficiency and updating classroom technology.

Massachusetts, however, was the only state we studied that granted institutions complete autonomy in how they used the funds. Most governors' offices were very involved in dictating how their institutions of higher education could use the funds. In many cases, like in Colorado, North Carolina, and Montana, state governors, often in partnership with higher education officials, required their institutions to use the funds to pay for staff salaries. Officials in these states all explained that the state made this decision because the U.S. Department of Education guidance encouraged them to use the funds to save and create jobs. Similarly, due to the significant reporting requirements attached to the funds, they said it would be the easiest way to track and report on the uses of the funds to the U.S. Department of Education.

Looking forward into 2012, institutions in the states selected for this case study are facing uncertain futures. While many of them believe their budget situations have stabilized, they are still functioning under strict fiscal constraints. In many cases, state support for higher education has remained at or below 2009 levels, while costs — like employee healthcare and retirement benefits — have increased.

Interestingly, many state and institution officials mentioned that they chose to focus on increasing autonomy and efficiency during the implementation of the Education Stabilization funds. These efforts allowed institutions to make decisions that benefited their specific students or needs where possible and helped to cut costs in the long run. For example, Louisiana's Granting Resources and Autonomy for Diplomas (GRAD) Act, which was enacted in 2010, allows institutions more autonomy to set tuition and do other things in exchange for less state support. Colorado also implemented a program that gives institutions more autonomy and flexibility from state oversight.

Most states also distributed their Education Stabilization funds according to the share of general funds each insti-

tution received under the state's funding formulas. This meant that the funds were distributed essentially as a replacement for state funds and states did not take into account any changes in enrollment or other factors. There were, however, a few exceptions to this trend.

Wyoming allocated the bulk of its Education Stabilization funds based on the physical size of facilities used for instruction at each campus, requiring institutions to use those funds for facilities maintenance and improvement. The state allocated the remaining funds based on enrollment growth at each institution, providing more funds to campuses that had larger increases in enrollment. While those funds could be used for salaries and benefits, only the Wyoming Community Colleges chose to do so. The University of Wyoming spent the funds it received under the enrollment growth formula on acquisitions for its library.

North Carolina allocated Education Stabilization funds to its institutions based on their share of payroll expenses, not on the share of state general funds the institutions received. Because the state required its campuses to use their funds to support salaries and benefits, distributing the money based on their share of these expenses ensured that each campus got a sufficient amount to meet its payroll needs. State funds support other activities in addition to salaries, including facilities, research, and student activities such as athletics. Had the state allocated the funds based on each institution's share of total state funds, it is possible that some institutions would not have received sufficient funds to cover their salary needs, while others would have received excess resources. Nevada also allocated the funds in this manner.

Finally, Colorado also distributed the funds among its institutions based on a metric other than share of state general funds. In 2009, the state divided the funds among its institutions in proportion to their share of state general funds, like many other states. In 2010 and 2011, however, the state distributed half of the funds based on each institution's share of general funds and half of the funds based on each institution's share of total funds including tuition revenue. Then the state distributed a \$10 million cut in state funds among the institutions based on enrollment growth. By including tuition in part of the distribution, Colorado ensured that campuses with higher tuition revenues (and therefore higher costs) received a greater share of the funds.

While most states we studied allocated funds to all institutions under their public higher education systems, two did not. For example, Montana did not allocate any Education Stabilization funds to its community colleges. This is likely because the community colleges in the state function as a separate system that receives funding through a different funding formula. While the Montana University System has oversight over the community colleges, that oversight is not as direct as it is with the other institutions. Montana did, however, use its Government Stabilization funds to provide aid to the state's community colleges.

North Carolina only provided Education Services funds to its community colleges in 2009, meaning that federal funds were used to replace state funds only in 2009. In contrast, state lawmakers provided the University of North Carolina system with Education Stabilization funds in 2009, 2010, and 2011. Because the community colleges did not receive any of the federal funds in 2010 or 2011, the state ensured that the community colleges would receive more stable support in state general funds.

Several states also had to readjust their budgets for higher education midway through the implementation of the SFSF due to unexpectedly low tax revenues. They did this either by reallocating Education Stabilization funds or by reallocating state general funds to account for changes in their financial situations. For example, Nevada initially intended to spend its Education Stabilization funds evenly in 2010 and 2011. However, lower-than-expected tax revenues meant that the state had to cut its higher education support, and thus opted to use all of its funds in 2010 to make up for the state funding cut. Similarly, Louisiana had to manipulate its higher education budget in 2011 to meet the maintenance-of-effort provision for Education Stabilization funds. To meet the requirement, the state moved state general funds intended to be spent in 2012 to its 2011 budget and replaced those funds with revenue from a 2011 increase in tuition.

Looking forward into 2012, institutions in the states selected for this case study are facing uncertain futures. While many of them believe their budget situations have stabilized, they are still functioning under strict fiscal constraints. In many cases, state support for higher education has remained at or below 2008 or 2009 levels, while costs — like employee healthcare and retirement benefits — have increased. Lawmakers in states like Colorado and North Carolina will make significant budget cuts to higher education in 2012 because tax revenues have not rebounded to pre-recession levels. These institutions are scrambling to make ends meet now that the Education Stabilization funds are no longer available and they must rely on state funds and tuition revenue to maintain services. In many cases, these institutions will implement tuition increases as state legislatures are unable or unwilling to increase funding for higher education, placing a larger share of the cost burden on students.

Conclusion

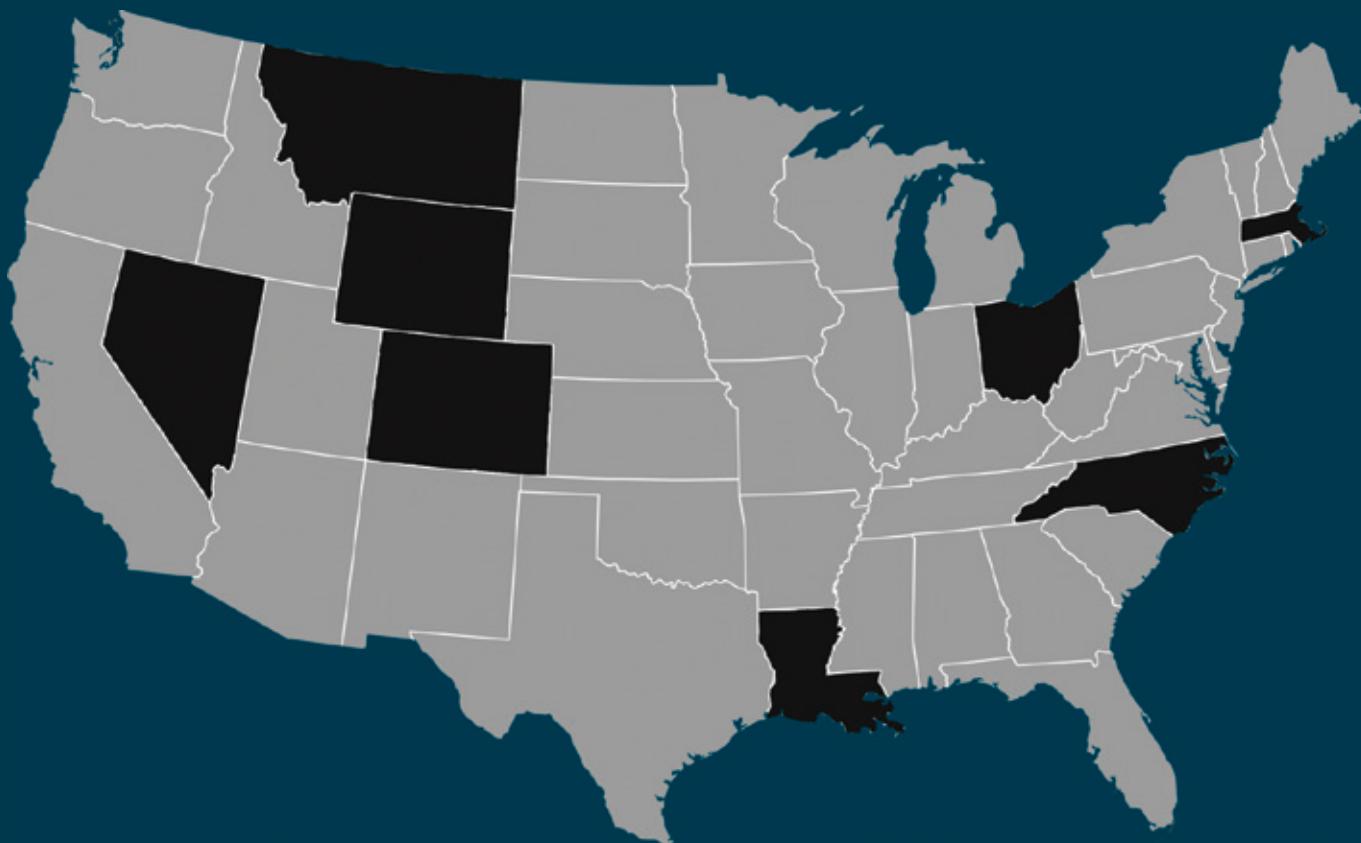
It is difficult to generalize about how all 50 states and their respective institutions of higher education used the Education Stabilization funds they were allocated in 2009, 2010 and 2011. Even so, these eight case studies make it clear that those funds helped states maintain a basic level of service at their higher education institutions in 2009, 2010, and 2011. Moving into 2012, some states will be able to maintain higher education spending and support their institutions at 2008 or 2009 levels. Other states and institutions, however, will continue to struggle to make ends meet in 2012 and beyond due to continuing low tax revenues. For these states, the Education Stabilization funds gave them the opportunity to plan for the long term and make some targeted spending reductions, provide institutions with flexibility and autonomy, and implement tuition and fee increases to make up for lost state support. ♦

State Case Studies

An in-depth look at the budgetary situation for each state's higher education system both during the implementation of the Education Stabilization funds and after, how each state determined the funds would be distributed, how the state's institutions used the funds, and what will happen to their higher education institutions once the funds are gone.

States:

- Colorado
- Louisiana
- Massachusetts
- Montana
- Nevada
- North Carolina
- Ohio
- Wyoming



Colorado

Overview

- In 2010 and 2011, Colorado distributed its Education Stabilization funds among institutions based on a three-tiered model that accounted for each institution's share of total state general funds, total funds, and enrollment growth.
- The \$554 million in Education Stabilization funds filled large gaps in state support for higher education, particularly in 2010 when the U.S. Department of Education granted the state a waiver allowing it to cut state spending below 2006 levels. Because the state used such a large portion of its Education Stabilization funds in 2010, it was unable to completely fill a budget gap in 2011.
- Most Colorado institutions used the funds to support instructional staff salaries and benefits.
- Colorado institutions will face further budget cuts in 2012 from 2011 levels and will respond to some of those cuts by imposing large tuition increases.

Colorado institutions of higher education received Education Stabilization funds in state fiscal years 2009, 2010, and 2011. These funds, combined with tuition increases and targeted spending cuts, helped the Colorado institutions maintain services despite significant state funding cuts. In 2009, the state reduced its spending on higher education to 2006 levels of \$555 million — the limit allowed under the SFSF maintenance-of-effort provision — and used \$151 million in Education Stabilization funds to backfill all of that reduction, bringing total funding to \$706 million. In short, the state cut higher education funding in 2009, but Education Stabilization funds more than offset those cuts.

In 2010, the state cut its spending on higher education again, this time below 2006 funding levels to \$329 million and filled that cut with \$377 million in Education Stabilization funds. Because this move would have violated the SFSF maintenance-of-effort provision, the state sought and received a waiver of the provision from the U.S. Department of Education for 2010. In 2011, the state was able to bring its higher education funding above 2006 levels to \$618 million. However, total funding for higher education fell in 2011 because the remaining Education Stabilization funds were not sufficient to bring total funding up to 2009 levels. As a result, the higher education system received \$644 million in combined state and Education Stabilization funds in 2011, \$62 million less than in 2010.

Colorado used most of its Education Stabilization funds to support higher education instead of K-12 because the state's constitution protects funding for K-12 education

and requires that K-12 funding come out of the state general fund. It also requires that state K-12 funding per pupil increase at the rate of inflation. Given these constraints, state lawmakers had to cut higher education funding in 2009 and 2010 to close budget shortfalls. However, in fiscal year 2011, the state did use some of its Education Stabilization funds for K-12 education.

In 2010, the Colorado legislature passed a bill that allowed each institution to determine how much it would increase tuition, with a limit of 9 percent.⁸ Each institution's governing board must approve any increase over 9 percent. According to several officials, Colorado's institutions would likely have had to raise tuition by a larger percentage to cover cuts in state aid without the support of the Education Stabilization funds. This would have either required approval or a new piece of legislation.

Every higher education institution in Colorado has an independent and autonomous governing board. The Colorado Commission on Higher Education oversees the system and distributes state funds to each governing board. There are four categories of institutions: community colleges; research institutions including the University of Colorado system and Colorado State University; the Metropolitan State College of Denver; and the outlying state colleges including Fort Lewis College, Adams State, and Western State.

How Colorado Used the Education Stabilization Funds

Like many states, Colorado allocated budget cuts among its institutions in proportion to their share of state general

funds in 2009. In 2010 and 2011, however, the state used a three-tiered model to determine how much it would cut funding to ensure that each institution got enough money to fit its needs. This change suggests that Colorado was sensitive to the nuances of higher education funding, particularly those institutions that were bearing the brunt of state budget cuts to education. One half of cuts were based on each institution's share of general funds, and one half of the cuts were based on each institution's share of total funds including tuition revenue. Additionally, the state distributed an overall \$10 million cut in funding that took into account enrollment growth to make sure that institutions with high growth rates were not disproportionately affected. This way, the community colleges got a larger share of state funds to cover their high enrollment growth rates.

In 2009 and 2010, Education Stabilization funds completely offset cuts in state funding and the state was able to maintain total higher education funding at 2008 levels. In 2011, however, Education Stabilization funds allocated to the state were insufficient to cover the total amount of cuts the state made to higher education funding. Each of Colorado's institutions handled the cuts somewhat differently. For example, the University of Colorado system combined services, instituted pay freezes, and set up operational sharing among campuses. Colorado State University, on the other hand, froze staff pay.

Most of the institutions used their Education Stabilization funds to support operational costs, particularly employee salaries. Guidance the state developed for its Education Stabilization funds required institutions to use the funds on salary-related expenses rather than on maintenance or other costs. Institutions received all funds on a reimbursement basis, meaning that the institutions incurred the expenditures and then were reimbursed by the state using the Education Stabilization funds. Because each institution has its own governing board that determined how the institution would use its funds, the following paragraphs describe a few representative institutions.

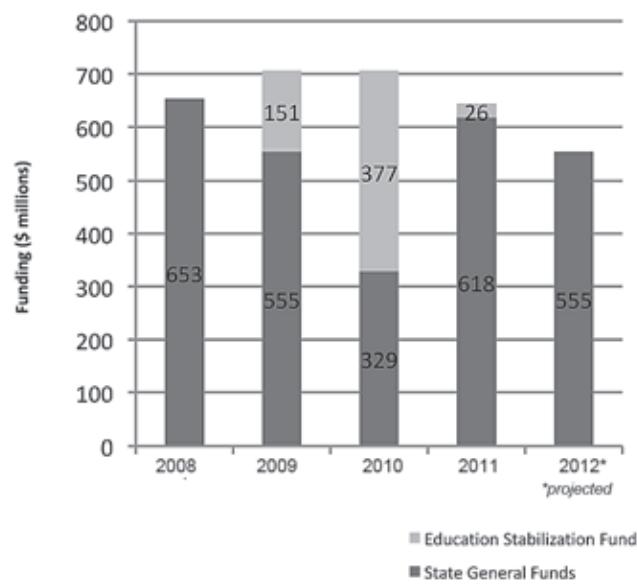
The Colorado Community Colleges used their Education Stabilization funds to backfill reductions in state funding for salary-related expenses for instructional staff, student services staff, academic support staff, and institutional support staff. In fiscal years 2009 and 2011, the community colleges made a one-time replacement of state funds cut by the legislature with Education Stabilization funds. In 2010,

however, the Education Stabilization funds were distributed in blocks throughout the year because the legislature moved Education Stabilization funds intended for 2011 to 2010 in the middle of the year. In total, Education Stabilization funds made up nearly half of the regular state appropriation for community colleges in 2010. The state distributed the funds among the 14 campuses based on each campus's share of the state funding cuts. The community colleges also increased tuition by 9 percent in both academic years 2010 and 2011 to make up for cuts in state funding.

The University of Colorado system used Education Stabilization funds to backfill cuts in state funding to instructional salaries and benefits. The system applied the funds to the first few months of payroll in each fiscal year until they were used up. Each campus received funds based on its proportion of total instructional costs. The University of Colorado system also raised tuition by 9 percent in 2010 and 2011. Additionally, in 2010 and 2011, the system laid off 355 employees across a variety of positions. Absent the Education Stabilization funds, the system likely would have had to raise tuition by a much larger amount and implement much more severe layoffs and programmatic cuts.

Western State College used its Education Stabilization funds to keep its budget at prior year levels and fill gaps

Colorado State General Funds and Education Stabilization Funds for Higher Education



where state funding had been cut. The university used the vast majority of its funds for staff salaries, preventing several dozen layoffs. In 2010 and 2011, Western increased tuition for in-state students by 9 percent and for out-of-state students by 4.5 percent (though the dollar amount of the out-of-state increase is much larger because out-of-state tuition is not state-subsidized). Though the Education Stabilization funds spared Western's budget from any reduction in 2009 and 2010, this was not the case in 2011. The school was forced to reduce its total budget by \$1 million in 2011, a significant amount for the institution. Western also froze salaries over the past three years. Without the Education Stabilization funds, however, Western could not have maintained salaries and would have had to make cuts throughout its entire budget. According to one Western official, without the federal funds, such large state budget cuts would have meant that institutions of higher education across the state would have closed.

Higher Education Funding Post-SFSF

All Colorado institutions will face budget cuts in fiscal year 2012 as Education Stabilization funds run out. Though the Education Stabilization funds allowed the state to maintain support for higher education at high levels in fiscal years 2009, 2010, and 2011, total support will drop to \$519 million in 2012, below the 2006 level of \$555 million. This dramatic cut will force institutions to raise tuition and cut costs.

In response, most institutions will implement tuition increases of over 10 percent contingent on permission from the Colorado Department of Higher Education, allowing them to cope with the significant loss of state general fund support. However, an official at the Department of Higher Education is hopeful that state revenues will increase somewhat in 2012 or will at least stabilize, providing a better future for higher education funding. Overall, the economic downturn has meant that students in Colorado now bear the brunt of higher education costs. Ten years ago, tuition revenue and state support covered higher education costs evenly; in 2012, student tuition will cover 75 percent of the costs and state support will cover only 25 percent.

Colorado Community Colleges will implement a 10 percent tuition increase in 2012. The system will face a total \$31 million cut in funding from 2011 levels, a substantial

portion of its budget. However, full-time-equivalent enrollment is up 33 percent since 2009, meaning that the community colleges are able to supplement some of those cuts with increased tuition revenues. Additionally, Colorado community colleges will be tightening their belts — specifically with respect to capital improvements. The schools have postponed any facilities upgrades until the budget situation improves.

The University of Colorado system will implement a 9 percent, on average, tuition increase in academic year 2012. Additionally, the institution will face a \$46 million cut in state funds in fiscal year 2012. As a result, the university will engage in further lay-offs and will try to find additional efficiencies to bridge the gap.

Western State College will increase tuition by 14.5 percent for in-state students in academic year 2012. Because this increase is above the 9 percent limit, the institution is required to dedicate 25 percent of the new funds to a need-based financial aid program. Over the next five years, the institution is planning 10 to 15 percent annual tuition increases to cover the 25 percent reduction in state support. In the meantime, Western will use institutional reserve funds to cover the operating cost losses for fiscal year 2012.

In the face of severe budget cuts the legislature is making for 2012, the Colorado Department of Higher Education has provided its institutions with a great deal of operational flexibility. This includes relief from state fiscal and purchasing rules, allowing different institutions or campuses to come together on purchasing agreements. Additionally, the state has imposed fewer regulations and less red tape, leading to efficiencies and some cost savings. The flexibility allows each institution to tailor its offerings to its students' needs more nimbly.

Even though tuition increases will be a burden on students and families, the Colorado higher education system is efficient in comparison to those of other states. A study of college productivity (July 2009) showed that Colorado has the most productive higher education system when measured in dollars spent per degree.⁹ An official at the Colorado Department of Higher Education suggested that the system achieves its efficiency by consistently maintaining low costs. ■

Louisiana

Overview

- Louisiana distributed its Education Stabilization funds according to each system's share of state general funds. The funds did not cover the size of budget cuts in 2010 or 2011, leaving the institutions with total funding amounts below 2009 levels in both years.
- Louisiana allowed its institutions to spend the funds on salary and benefits and need-based financial aid. Each institution could decide how to divide the funds between the two purposes.
- Louisiana manipulated its budget to meet the maintenance-of-effort provision in 2011. The state legislature moved state general funds slated for 2012 into 2011 and replaced the reallocated 2012 state general funds with revenue from 2011 tuition increases. This budgeting trick means that revenue from 2011 tuition increases will not become available to institutions until 2012, allowing the state to replace that revenue with general funds originally slated for 2012.
- Louisiana's institutions will face a 7 percent budget cut in 2012 from 2011 levels and will increase tuition by as much as 10 percent to help compensate for the cut.
- Louisiana is one of the few states that was unable to keep funding for its higher education institutions at 2009 levels in any of the years for which it used Education Stabilization funds.

Louisiana's institutions of higher education received Education Stabilization funds in fiscal years 2010 and 2011. Institutions used these funds to support salaries and benefits and need-based financial aid. The state spent \$189 million of the funds on higher education in 2010, and \$289 million in 2011. However, these funds did not completely offset cuts that Louisiana lawmakers made to state funding for higher education. In 2009, total state support for the higher education system was \$1.425 billion. In 2010, that dropped to \$1.157 billion and in 2011 it dropped further to \$1.146 billion. These numbers, however, include support for the Board of Regents office and student financial aid. Cuts to actual operating budgets for the public institutions were even more significant; state funds designated for institutions dropped from \$1.371 billion in 2009 to \$966 million in 2010 and \$962 million in 2011.

The Louisiana higher education system consists of four systems — the University of Louisiana (8 campuses), Louisiana State University (11 campuses), Southern University System (5 campuses), and the Louisiana Community and Technical College System (10 campuses), each with an independent management board that oversees the operation of the system. The management boards at each system had primary control over how their institutions used the Education Stabilization funds.

How Louisiana Used the Education Stabilization Funds

Like many states, the Louisiana State Budget Office divided its Education Stabilization funds among the state's four higher education systems based on the share of general state funding each system received. Funds were, in other words, distributed in the same proportion as state funds. Each system's management board determined how the funds would be divided among the campuses within the system, but each ultimately decided to divide the funds among campuses according to their shares of state general funds as well. However, only campuses with student populations were allowed to receive funds, meaning that the Southern University Agriculture Center and the LSU Pennington Biomedical Research Center did not receive any funds.

The management board for each system distributed the funds to its campuses on July 1 of each year, allowing campuses to draw down on the funds as necessary throughout the year. According to an official at the Louisiana Board of Regents, institutions used their Education Stabilization funds primarily to pay for staff salaries and need-based student scholarships. Each campus was able to decide the degree to which it would use the funds for either purpose.

Because the Education Stabilization funds did not cover the full size of the cuts that Louisiana lawmakers made to

state funding for higher education in the three years that the funds were available, institutions were forced to cut costs. They did so by reducing staff, either by opting not to fill recently-vacated staff positions or by laying off staff. Institutions also cut budgets for things like travel and equipment that they decided were not integral to the quality of education. The Louisiana Board of Regents also identified 450 programs at various institutions that had low student completion rates. Of these programs, the campuses discontinued 130 and converted many others from major to minor programs in the interest of streamlining services.

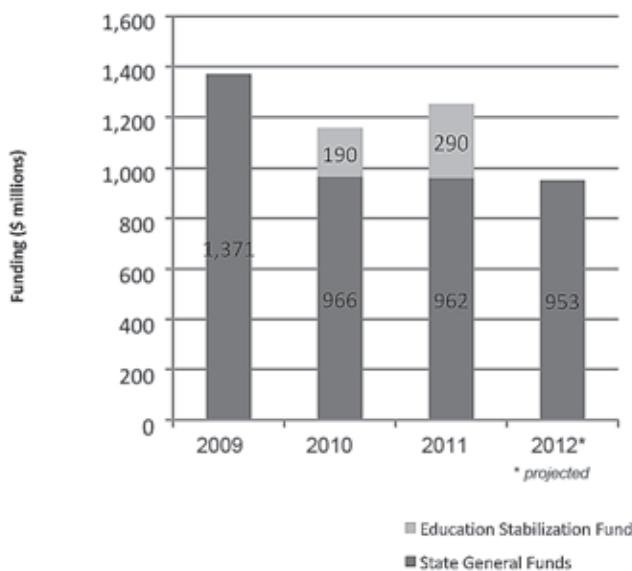
Additionally, the institutions implemented tuition increases between 8 and 10 percent in both 2010 and 2011 that were made possible by two pieces of legislation. The legislature passed a law that gave institutions authority to increase tuition by up to 5 percent every year for four years. At the same time, the Granting Resources and Autonomy for Diplomas (GRAD) Act, passed in 2010, allowed institutions to increase tuition by an additional 3, 4, or 5 percent as long as they meet certain metrics like graduation rates.¹⁰ Combined, these two measures allowed institutions to increase tuition by as much as 10 percent in both 2010 and 2011.

In 2011, Louisiana manipulated its higher education budget to meet the maintenance-of-effort provision of the law. The provision required that states not cut funding to higher education below what they provided in 2006. In 2011, Louisiana did not initially have sufficient state general funds to maintain 2006 levels of funding and would have violated the maintenance-of-effort provision. To avoid this, the legislature decided to move state general funds slated for 2012 forward into 2011. The legislature then replaced the reallocated 2012 state general funds with revenue created by 2011 tuition increases.

This budgeting trick means that revenue from 2011 tuition increases will not become available to institutions until 2012, allowing the state to use general funds originally slated for 2012 to make up for those funds. This gives the appearance that Louisiana has funded its higher education system at levels required by the maintenance-of-effort provision of the Education Stabilization funds, even though it has only changed the source of the funds (tuition versus general funds), not the total amount provided. Because Louisiana expects state funding to stay constant in 2012 and beyond, any other cost increases will have to be supported through further tuition increases.

Below are details on how each public institution of higher education in Louisiana used the Education Stabilization funds.

Louisiana State General Funds and Education Stabilization Funds for Higher Education



Louisiana Community and Technical Colleges

The Louisiana Community and Technical Colleges used Education Stabilization funds solely for faculty and instructional salaries. Because salaries are the single largest expenditure for the system, officials believed it was the obvious choice and made reporting on the use of the funds to the state and federal government easier. The state distributed the funds monthly in each of the three years to the individual campuses as part of the state general appropriation.

However, the Education Stabilization funds did not cover all of what the legislature cut from community and technical colleges' budgets. In response to the overall funding cut, the campuses either laid off or cut hours for over 600 employees, eliminated or downsized over 700 academic programs, and decreased spending on administration from 2009 to 2011. At the same time, the community and technical colleges experienced extreme enrollment

growth. While the institution was able to cover some of the increased cost of these new students through a 10 percent tuition increase in both 2010 and 2011, the enrollment growth and cuts the legislature made to funding meant that total funding per student (full-time equivalent) was 17 percent below 2009 levels.

University of Louisiana System

The University of Louisiana campuses used their Education Stabilization funds for both salary and benefits expenses and need-based scholarships. Each campus determined how it would divide its allocation between salaries and scholarships. Some chose to spend all of the money on salaries based on their budgetary needs. The campuses received the funds from the state on a reimbursement basis every fiscal quarter.

Like the community colleges, state lawmakers imposed budget cuts on the University of Louisiana system even after allocating Education Stabilization funds to the institutions. From 2009 to 2010, total support for the institution — including state general funds, Education Stabilization funds, and tuition revenue — dropped \$55 million, from \$709 million to \$654 million (during that time, state support decreased by \$131 million to \$298 million and was supplemented by \$59 million in Education Stabilization funds). This cut required the system to lay off or furlough employees and cut academic programs. In 2011, the institution received \$691 million in total funding, nearly restoring funding to 2009 levels. However, due to increases in pension costs for staff and other mandated costs, the institution was not able to rehire or replace any staff that had been let go due to budget cuts in 2010.

As discussed above, the increase in funding for the University of Louisiana from 2010 to 2011 cannot be attributed to an actual increase in state general funds. Instead, the increase is due to an increase in the amount of Education Stabilization funds the legislature dedicated to the system (from \$59 million in 2010 to \$95 million in 2011), and a 10 percent tuition increase (which amounted to roughly \$30 million). However, to reach its maintenance-of-effort requirement, the state legislature provided the system with an additional \$37 million in state general funds in 2011 and moved \$37 million in tuition revenue earned in 2011 to the institution's 2012 budget. This move will help keep the University of Louisiana System's budget consistent in 2012. In the end, state support increased from \$298

million in 2010 to \$309 million in 2011 and tuition revenue available in each year stayed constant.

Louisiana State University System

The Louisiana State University system also used its Education Stabilization funds to support a combination of salaries and benefits for instructional staff and student scholarships. Each campus decided how it would divide its funds between the two purposes in each year. To deal with the cuts in state funding that were not offset with Education Stabilization funds, the Louisiana State University system placed a hiring freeze on vacant positions, instituted early retirement plans to help downsize payrolls, implemented higher class sizes, and deferred some maintenance on facilities. As a result, the system was able to avoid any layoffs even though 70 percent of the institution's budget is made up of employee expenses.

Without the Education Stabilization funds, the Louisiana State University campuses would likely have been in a state of financial exigency because they would not have been able to maintain basic services given high state funding cuts. Though it is impossible to know how much the state legislature would have cut funding for higher education absent Education Stabilization funds, it is likely that the cuts would have been large enough to require significant lay-offs or additional cuts to programs and services.

Southern University System

The Southern University System also used its Education Stabilization funds for salaries and benefits and scholarships to mitigate the effects of state budget cuts. Institutions could decide how to divide their funds between the two categories. According to an official at the system, at least 90 percent of the funds were used for salaries and benefits. Over fiscal years 2010 and 2011, Louisiana lawmakers cut funding for the Southern University System by \$20 million, nearly one-quarter of the institution's state support, even after allocating Education Stabilization funds to the schools. To make up for these cuts, the institution used a wide range of methods including lay-offs, furloughs, academic program eliminations, increased class sizes, reduced classroom sections, reduced operating budgets, and deferred maintenance and equipment.

Without Education Stabilization funds, the Southern University System would likely have had to declare a finan-

cial emergency. Lay-offs and other efforts would have been much more severe and would have had a serious negative impact on the quality of education.

Higher Education Funding Post-SFSF

Louisiana's tax revenues have not rebounded to pre-2009 levels. As a result, Louisiana lawmakers will cut state support for Louisiana's higher education institutions by 7 percent from 2011 levels to \$953 million. The state will not restore Education Stabilization funding with its own funds. The legislature has, however, allowed the institutions to raise tuition multiple times in the past years; with this increased revenue, the overall cut will only be 1 percent below 2011 levels. According to an official at the Louisiana Board of Regents, the Education Stabilization funds allowed institutions time to plan for 2012, when the funds would no longer be available. As a result of this planning, institutions will not have to make any additional cuts or layoffs in 2012. However, the campuses will continue to look for additional efficiencies.

Under Louisiana's GRAD Act (mentioned above) the state gave institutions more flexibility and autonomy in managing their budgets, including the ability to carry forward unspent state funds and create purchasing cooperatives among campuses. The autonomies will allow institutions to continue to save money through efficiencies in purchasing while gaining the authority to increase tuition without needing to get specific legislative approval. Under the law, eventually some of the larger schools will gain the authority to build new buildings outside of the state construction requirements.

Although Louisiana's institutions of higher education will receive roughly the same amount of total support (state funding and tuition revenue combined) in 2012 as in 2011, Louisiana institutions will likely face future budget cuts. The state projects a \$1 billion shortfall in 2013 and the following five years due to the growing costs of other state-funded programs. In fact, several institutions mentioned that the legislature may make mid-year cuts to their budgets in 2012 if the state's tax revenue outlook does not improve.

The Louisiana Community and Technical Colleges will lose \$29 million in combined state and Education Stabilization fund support from 2011 to 2012. However, the institution

also expects to bring in an additional \$46 million in tuition revenue due to another 10 percent increase in tuition. This means the institution will have a net \$17 million increase in funding in 2012, providing it with some greater resources to handle its ever-increasing enrollment.

In 2012, the University of Louisiana's overall budget will only fall by 1 percent from 2011 levels after including the tuition revenue transferred from 2011. The legislature, however, has cut state support from \$309 million in 2011 to \$291 million in 2012. Officials at the institution expect lawmakers to keep funding constant at around \$700 million in 2012 and beyond, including tuition increases. Because the legislature will allow institutions to increase tuition by 10 percent every year, this allows the state to decrease general fund support annually and replace those funds with tuition revenue. It also compensates for the \$37 million in 2011 tuition revenue that will be available in 2012 but not in subsequent years. While this does provide the institution with a stable budget, it prevents the institution from growing and has even forced some campuses to let staff go. The institution has also frozen salaries in 2012 to keep cost growth down.

Overall funding for the Louisiana State University system will not change in 2012 from 2011 levels thanks to a 10 percent increase in tuition allowed by the legislature. The tuition increase will compensate for the loss of Education Stabilization funds. While this budget does not account for increased costs, it means that the system is in a relatively stable position in 2012. However, some campuses that do not enroll students, but serve research roles — like the Biomedical Center — are struggling financially because they have no tuition revenue to rely on.

The Southern University System will lose \$17 million in state support in fiscal year 2012. Though it is able to offset some of that cut with tuition increases, it will still face a net \$5 million cut in support from 2011 levels. Additionally, the institution will have to absorb approximately \$4 million in mandated increased costs due to healthcare and retirement contributions that the state is not funding. Due to the cut in state support and the increased costs, the system is looking to additional layoffs and furloughs, and potentially further reductions in academic programs. An official with the system expects 2012 to be another rough year. ■

Massachusetts

Overview

- Massachusetts divided its Education Stabilization funds among its institutions based on their share of state appropriations.
- The state used the first two payments to backfill cuts made to higher education state funding in fiscal year 2009 and the third and fourth payments to bring 2010 funding up to 2009 levels. Finally, the state used the last payment (from Government Services funds) to support dual enrollment programs that allow high school students to enroll in college-level classes.
- Massachusetts allowed its institutions complete discretion over how they spent the funds.
- The state legislature will cut Massachusetts' institutions' budgets by as much as 9 percent in 2012 from 2011 levels. The institutions will increase fees to make up for the cuts.

Massachusetts institutions of higher education received \$356 million in State Fiscal Stabilization Funds in fiscal years 2010 and 2011. The state distributed funds to institutions in five payments beginning in August of 2009 and ending in fall of 2010. While the first three payments were from the Education Stabilization fund, the final two were from the state's Government Services funds – federal money provided under the American Recovery and Reinvestment Act that the state did not have to use specifically to support education.

The state used the first two payments to backfill cuts made to higher education state funding in fiscal year 2009, while they used the third and fourth payments to bring 2010 funding up to 2009 levels. Finally, the state used the last payment (from Government Services funds) to support dual enrollment programs that allow high school students to enroll in college level classes. These funds were not a part of the general appropriation. In total, the state spent \$284 million in SFSF monies in 2010 and \$72 million in 2011, but some of the 2010 funds were used to support 2009 expenditures.

Massachusetts has a three-tiered higher education system — the University of Massachusetts (five campuses and one online), the State University system (nine independent institutions), and community colleges (15 campuses). Though Massachusetts used SFSF monies (both Education Stabilization funds and Government Services funds) to maintain the system's budget in 2010, the three systems took a combined \$70 million budget cut in 2011.

How Massachusetts Used the Education Stabilization Funds

The state distributed the funds among institutions based on their share of the annual state appropriations. The University of Massachusetts received \$189 million, the State University system received \$80 million and the community colleges received \$88 million. The state gave the institutions near complete discretion over how they spent the funds. Each institution submitted a spending plan to the Massachusetts Department of Higher Education for the funds that the state approved based on guidance from the U.S. Department of Education.

Massachusetts' institutions used the majority of the Education Stabilization funds to pay for staff salaries. However, some institutions used the funds for other purposes including renovation and modernization of academic buildings, information technology, and energy bills. The state distributed the funds in three allocations during fiscal year 2010 and a final allocation in fiscal year 2011. However, once the funds became available, institutions could draw them down as expenses demanded. Though state policymakers have held tuition constant at Massachusetts institutions of higher education since 1997, institutions have raised other mandatory fees charged to students to make up for cuts to state funding.

Because the Massachusetts Higher Education System is decentralized, allowing each institution to have autonomy over the use of the Education Stabilization funds, it is impossible to generalize about how the funds were used. The sections below describe how the University of

Massachusetts and one state university used the funds. Unfortunately, we were unable to interview anyone from the community college system.

University of Massachusetts System

The University of Massachusetts System received almost \$189 million in Education Stabilization and Government Services funds in 2010 and 2011. Of those funds, \$28 million were used to fill cuts to state support the legislature made in 2009, keeping the system whole in 2009. The state used \$123 million of the funds in 2010 to keep support for the system at 2009 levels. In 2011, however, the state only provided the system with \$38 million of the federal funds, leaving the university with approximately a \$45 million gap in support. The system allocated the funds among its campuses in proportion to their share of state general support.

However, the state was able to anticipate the gap in support for 2011, enabling the system to plan ahead and make spending cuts gradually over 2009, 2010, and 2011. Specifically, the University of Massachusetts System adhered to a practice of covering 50 percent of any loss of support through cuts and 50 percent through fee increases. Individual campuses were able to decide what cuts to make based on their needs and budgets. These cuts included furloughs, lay-offs, consolidation of offices

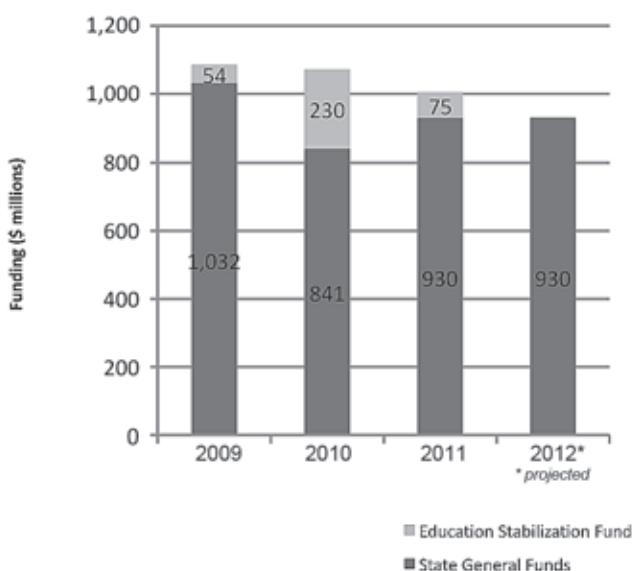
and colleges on individual campuses, travel cutbacks, and initiatives to save energy.

In February of 2009, before the state legislature had allocated State Fiscal Stabilization Funds among the different higher education systems, the University of Massachusetts' Board of Trustees imposed a \$1,500 fee increase for all students starting in 2010 under the condition that the university would rebate part of the increase if the SFSF allocation allowed for it. Ultimately, the system provided a \$1,100 rebate on the fee increase for in-state students with Education Stabilization funds, making their net fee increase \$400. Out-of-state students, on the other hand, paid the entire \$1,500 fee increase in 2010, which amounted to approximately a 15 percent increase in combined tuition and fees. In 2011, the system was not able to provide a rebate on the fee increase. As a result, in-state students paid the full \$1,500 increase from 2009 levels and out-of-state students paid the same amount as they did in 2010 plus an additional 2 to 3 percent increase in fees.

The University of Massachusetts gave each of its campuses discretion over how to spend their SFSF monies. The campuses used most of their funds for salaries and benefits. Other uses included increasing fundraising activities, implementing energy efficiencies, and financial aid, including the rebate for the fee increase described above. Additionally, the state provided over \$76,000 in Government Services funds to the system specifically for dual enrollment programs that allow high school students to receive college credit for classes.

Without the SFSF monies, the University of Massachusetts system likely would have had to lay off more staff than were laid off in 2009, 2010, and 2011. Additionally, the system would not have been able to provide the rebate for the fee increase in 2010 and would have likely had to increase fees even more in 2011. Similarly, the system would have considered capping enrollment at the campuses, despite increased demand in 2009, 2010, and 2011, to ensure that campuses were able to provide a high-quality education to students with less support from non-tuition sources. Currently, tuition and fees are set below the actual cost of educating students because the state supplements that cost. If enrollment were to expand to the point that the additional cost to the system of adding a new student exceeded the tuition revenue paid by that student, the system would not be able to provide high-quality services to its students.

Massachusetts State General Funds and Education Stabilization Funds for Higher Education



State University System — Salem State

Salem State University, one of the largest institutions in the state university system, lost approximately \$11 million in state support in 2010 and \$9 million in 2011 as a result of budget cuts. Though state lawmakers provided the institution with \$14 million in Education Stabilization funds to help fill those gaps, it only used about \$5 million to cover expenses that otherwise would have been supported by state general funds. This included salaries and benefits, financial aid, and library acquisitions. The institution covered the remainder of the cuts through fee increases (5.1 percent in 2010 and 5.6 percent in 2011), employment reductions (including leaving 35 positions vacant and laying off an additional 25 positions), and efficiencies and budget reductions, including limiting travel expenses and equipment replacement. Salem State used the remaining Education Stabilization funds to cover expenses that would not have been part of its general budget including facilities improvements, classroom technology, document imaging, energy conservation, and emergency preparedness. These expenditures were selected because they were expected to save the institution money in the long term and prepare them for future cuts in state support.

Higher Education Funding Post-SFSF

In 2012, Massachusetts' institutions of higher education will respond to ongoing budget cuts with fee increases as well as some additional staff reductions. The legislature will cut the State University system's budget by 7.6 percent from 2011 levels, the Community College system's budget by 8.6 percent, and the University of Massachusetts system's budget by 9.0 percent.

The University of Massachusetts system will increase fees by 7 percent for both in-state and out-of-state students

in 2012 from 2011 levels. The state will provide the same amount of state support in 2012 that the system received in 2011. However, it will not restore any SFSF monies, leaving total support for the system \$38 million, or 9 percent, below 2011 levels. Due to thorough fiscal planning, the system will not have to make additional cuts to services or programs to manage this additional cut in support. Unfortunately, loss of state support and increases in fees mean that revenue from students (tuition and fees) now exceeds state support for the system. According to an official from the University of Massachusetts, this means that the state is not living up to its responsibility to provide an affordable and high-quality public higher education system. Even though the system has an aggressive financial aid policy that it has tried to keep up with growing fees, students are likely choosing not to attend the University of Massachusetts because of the price and the debt they may incur.

Salem State University will increase fees by 6.9 percent in 2012 from 2011 levels. Though state support for higher education will remain relatively stable in 2012 compared to 2011 levels, the 2012 funding does not account for any inflationary increases or increases in fringe benefit costs resulting from the current collective bargaining agreement the institutions have with employees. Additionally, the institution is still down 60 staff positions and short on funding for other activities, including travel, equipment, and supplies due to cuts described above. Because Massachusetts allowed its institutions to draw down the Education Stabilization funds as they found it necessary, Salem State will use some of its remaining funds in state fiscal year 2012 (which starts July 1, ahead of the federal fiscal year which starts October 1) for library materials and financial aid. ■

Montana

Overview

- The Montana University System distributed its Education Stabilization funds only among the University of Montana campuses and the Montana State University campuses according to each campus's share of state general funds. The funds were divided into two segments — a larger one to maintain spending levels, and a smaller one for one-time expenditures.
- Between state funds and Education Stabilization funds, Montana slightly increased funding for its higher education system in the 2010-11 biennium over the 2008-09 biennium levels. These funds helped to delay tuition increases.
- Partway through fiscal year 2010, the state redirected \$1 million of its Education Stabilization funds designated for 2011 into 2010 due to insufficient tax revenues.
- All of the funds were used for staff salaries and benefits.
- Montana institutions will face little-to-no budget cuts in 2012 from 2011 levels due to strong tax revenues.

Montana's institutions of higher education received Education Stabilization funds in fiscal years 2010 and 2011. These funds made up for all of the reductions the state made to its higher education budget in both years. In fact, after combining state funds and Education Stabilization funds, Montana slightly increased funding for its higher education system in the 2010-11 biennium over 2008-09 biennium levels. Institutions used the funds to support salaries and benefits, primarily for instructional staff. Even though total funding for the institutions remained stable, the Montana Board of Regents approved a small tuition increase for select campuses.

The Montana University System consists of the Montana State University (which includes three four-year institutions and two two-year institutions), the University of Montana (which includes three four-year institutions and three two-year institutions), and three community colleges. Montana also has seven tribal colleges, but they are not considered part of the Montana University System in the state's higher education budget.

How Montana Used the Education Stabilization Funds

Montana allocates funds to its higher education institutions through two separate funding streams. The first funds the state's community colleges, under which the legislature allocates funds directly to each institution based on a formula that accounts for enrollment, per-pupil cost of education, and a pre-determined percentage of that cost that the state will contribute. Under the second, the state provides funds to all other institutions based on a formula

that accounts for metrics similar to those for community colleges but assumes different per-pupil costs and levels of state support. Montana opted to distribute its Education Stabilization funds only through the second stream, and did so in proportion to the funding that each campus received under the state's general funds. For example, if the University of Montana at Missoula received 20 percent of all state general funds for higher education in 2010, then it would have received 20 percent of the Education Stabilization funds available in 2010.

Though the community colleges did not receive any Education Stabilization Funds, the state opted to provide the institutions with federal Government Services funds, a separate program that Congress included as part of the State Fiscal Stabilization Fund. Montana's community colleges used these funds for capital improvement projects.

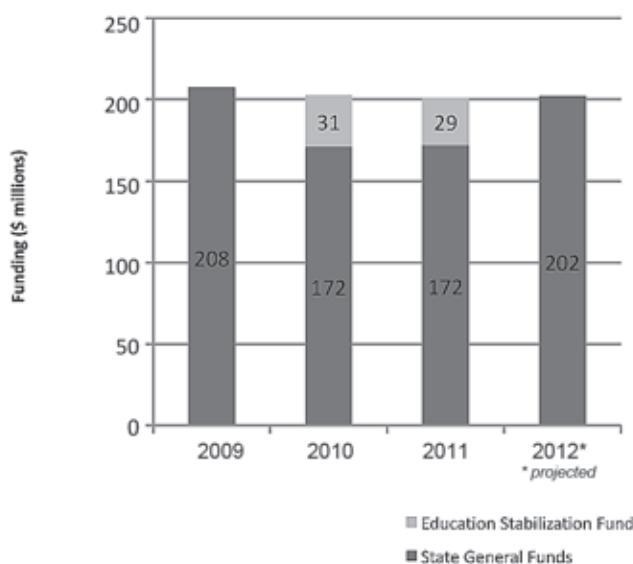
After the state allocated Education Stabilization funds to the Montana University System (MUS), the MUS distributed the funds to its member institutions in two segments. The MUS considered the first segment base-funding that the state intended to replace or maintain with its own funds when the Education Stabilization funds were no longer available in 2012. The MUS distributed these funds in proportion to each institution's share of state general funds in both 2010 and 2011. The second segment of funding was a much smaller, one-time appropriation that the MUS encouraged institutions to use for one-time expenditures in 2010 and 2011, thereby avoiding any future funding cliff.

According to an official at the MUS, all institutions used

their Education Stabilization fund allocations to support “personal services,” which includes salaries and benefits, primarily for instructional staff. The MUS considers some of these expenditures, like salaries for adjunct professors, one-time expenses because they did not go to permanent staff. The state provided institutions with Education Stabilization funds in even, monthly distributions as reimbursement for a share of what the institution paid for the previous month’s salary obligations. Initially, the state planned to evenly divide the Education Stabilization funds between fiscal years 2010 and 2011. However, partway through fiscal year 2010, the state discovered that it had insufficient tax revenue to support its higher education system and redirected \$1 million of its Education Stabilization funds from 2011 into 2010. In the end, Montana provided institutions of higher education with \$31 million in Education Stabilization funds in 2010 and \$29 million in 2011.

The Montana Board of Regents also approved a 3 percent tuition increase at the two flagship universities, Montana State University at Bozeman and University of Montana at Missoula in both 2010 and 2011. However, the Board froze tuition at all other four-year and two-year institutions. The state’s community colleges, on the other hand, each elected individually to either keep tuition stable or increase it by

Montana State General Funds and Education Stabilization Funds for Higher Education



as much as 4.5 percent in each year. The Board of Regents approved these decisions.¹¹

Despite the fact that the state provided a slight overall increase in funding for higher education during the 2010-11 biennium, the state funding formula did not distribute that increase to all institutions. As a result, some institutions still were forced to reduce personnel due to lack of sufficient funding. Additionally, all institutions froze salaries for staff, including increases for cost-of-living adjustments. Without the Education Stabilization funds, these actions would have been more severe: Montana’s higher education system would likely have faced a 5 to 10 percent budget cut and would have been forced to institute a significant tuition increase far greater than the 3 percent increase it did enact.

Higher Education Funding Post-SFSF

Unlike many other states, Montana is able to maintain its funding levels for the Montana University System absent Education Stabilization funds in 2012. This is a testament to Montana’s strong tax revenues, which were not nearly as affected by the economic downturn as those in many other states. Specifically, Montana lawmakers have adopted a 2012-13 budget that will provide the state’s University System with funding that is only 2 percent below 2010-11 levels. The state was able to replace all of the Education Stabilization funds it spent in 2011 with state general funds with the exception of 2 percent. However, officials at the MUS do not expect state support to return to 2008 levels until 2015 or later after state revenues have recovered to pre-recession levels.

To make up for the 2 percent budget cut, campuses will have to make some cuts and find some cost savings starting in academic year 2011-12. Because enrollment continues to grow, campuses will have to serve more students with less state support. The campuses are quite autonomous, meaning they will be able to determine what service cuts they will make while still achieving their individual missions and serving their unique student bodies. The Board of Regents, which has constitutional authority over the institutions, must approve their budget plans.

Additionally, the Board of Regents has approved a 5 percent tuition increase for all four-year institutions in 2012. The Board of Regents has decided to freeze tuition at the two-year institutions in the interest of maintaining affordability. □

Nevada

Overview

- Nevada distributed all of its Education Stabilization funds in 2010 according to each institution's share of instructional salary expenditures. The state legislature originally allocated \$92 million of its Education Stabilization funds to higher education institutions in both fiscal years 2010 and 2011. However, low tax revenues forced the state to use all the funds in 2010.
- Nevada's Department of Higher Education required the state's institutions to spend 95 percent of their Education Stabilization funds on salaries and benefits and the remaining 5 percent on operating expenses or specific programs.
- Despite the availability of Education Stabilization funds, Nevada was never able to fully offset cuts to state funding for higher education in any year.
- Nevada's institutions will face a 15.3 percent budget cut in 2012 from 2011 levels and will increase tuition, cut employee salaries, and implement a furlough to supplement the cut.
- Montana institutions will face little-to-no budget cut in 2012 from 2011 levels due to strong tax revenues.

Nevada provided its institutions of higher education with Education Stabilization funds only in fiscal year 2010. These funds were integral to the institutions' financial stability in that year. Though the state legislature had originally allocated \$92 million of its Education Stabilization funds to higher education institutions in both fiscal years 2010 and 2011, offsetting an 11.5 percent cut to state support, low tax revenues forced the state to use all the funds in 2010. Ultimately, state lawmakers cut state support in 2010 to \$396 million from \$626 million in 2009. Those funds were supplemented with \$185 million in Education Stabilization funds, bringing total support for the higher education system to \$581 million, down 7.1 percent, or \$45 million, from 2009 levels. Nevada lawmakers cut an additional \$23 million in 2011, bringing annual state funding for higher education down from \$626 million in 2009 to \$558 million in 2011. Despite the availability of Education Stabilization funds, which were primarily used to support salaries and benefits, Nevada was never able to fully fill cuts to state funding for higher education, leaving its institutions in dire straits.

Nevada has eight institutions of higher education — two universities, one state college, four community colleges, and one research institution. The Nevada Board of Regents oversees these institutions, including state funds distributed to the schools.

How Nevada Used the Education Stabilization Funds

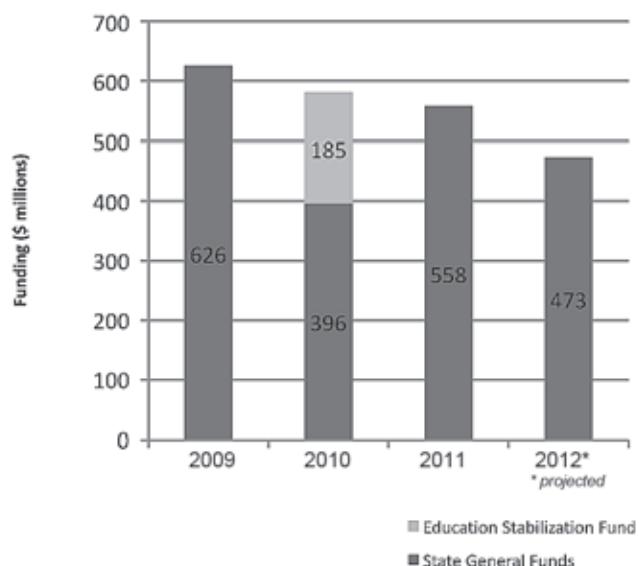
Nevada divided its Education Stabilization funds among seven

of its institutions of higher education (the state's research institution was excluded because it enrolls no students and therefore has no instructional expenses) according to their share of total expenditures on instructional salaries. By distributing the funds based on salary expenditures, rather than total state support, Nevada ensured that the funds benefited those institutions that had the highest faculty costs, rather than those that received state support for other expenses not related to instruction. Over the first eight months of fiscal year 2010 (which began July 1, 2009) the state distributed \$92 million to the institutions under the assumption that those funds would be divided evenly over 12 months.

However, in January of 2010, the state discovered that it did not have sufficient tax revenue to support 2010 expenditures. In response, the state replaced general funds in 2010 with Education Stabilization funds it had intended to use in 2011. As a result, the state distributed \$92 million in additional Education Stabilization funds over the final four months of fiscal year 2010 than the state had originally planned. In total, the state spent \$185 million of its Education Stabilization funds on higher education in 2010. This left no federal funds for 2011, forcing institutions to find other ways to make ends meet in that year.

The Board of Regents required each institution to use 95 percent of its Education Stabilization fund allocation for salary and benefits of instructional employees. The state gave each institution the discretion to use the remaining 5 percent on operating expenses or specific programs.

Nevada State General Funds and Education Stabilization Funds for Higher Education



In 2011, institutions increased registration fees for students to help make up for cuts to state support and the lack of Education Stabilization funds available for that year. However, the Board of Regents capped those increases at 5 percent. Additionally, institutions eliminated programs and laid off staff. In total, 8.8 percent, or 686, of staff positions were eliminated. The legislature divided funding cuts proportionally among institutions based on their share of total state funding. Without the Education Stabilization funds, Nevada's institutions would have likely had to increase tuition further and the Board of Regents would have been forced to lift any cap on fee increases. However, it is difficult to hypothesize on the size of such a tuition increase.

Higher Education Funding Post-SFSF

Nevada lawmakers cut funding for the state's higher education system by 15.3 percent from 2011 levels in fiscal year 2012. The steep cut is the result of continuing low tax revenues and the loss of Education Stabilization funds as lawmakers were unable to make up for the loss of federal funds with state funds. Already, the system has issued notices to 186 employees, implemented a "voluntary separation incentive program" to remove some faculty positions from the payroll, and eliminated some degree programs. The cuts have affected each institution differently because of their differing needs and structures. For example, community colleges, which focus on ensuring open access to any state resident, are struggling to provide basic education services to their students because increases in enrollment have outpaced any increased revenue from tuition. The public universities, on the other hand, have a higher cost structure and more employees to support. As a result, it is more difficult for them to be flexible and make cuts to services and programs without creating significant disruptions in their operations.

For 2012, the Nevada Board of Regents approved a 13 percent tuition increase for undergraduate students at the state's institutions and a 5 percent increase for graduate students. Additionally, the Board of Regents has imposed a 2.5 percent salary cut for employees and a six-day furlough.

Though Nevada's tax revenues seem to have hit bottom and are now likely to rise, an official at the Board of Regents does not expect the state legislature to approve funding increases for the higher education system until fiscal year 2014. □

North Carolina

Overview

- North Carolina distributed its Education Stabilization funds to both its community colleges and the UNC system in 2009 and to only the UNC system in 2010 and 2011.
- The \$384 million in Education Stabilization funds made up for shortfalls in state tax revenue and North Carolina required that institutions use the funds exclusively to support faculty payroll expenses.
- North Carolina's institutions will face significant budget cuts in 2012 from 2011 levels and will make up for some of those cuts with tuition increases.

North Carolina institutions of higher education received Education Stabilization funds in state fiscal years 2009, 2010, and 2011. North Carolina faced pressing budget shortages in mid-2009, requiring the state to push out Education Stabilization funds to its institutions almost as soon as the funds became available. These funds, and funds that were later distributed to the University of North Carolina system, were all used to support salaries and benefits. Further cuts to state support for UNC in 2010 and 2011 meant that the institution relied on the federal funds in those years to meet payroll needs. Despite the Education Stabilization funds, both institutions implemented significant tuition increases, particularly in 2011.

The North Carolina system is made up of the University of North Carolina system (17 campuses) and the North Carolina Community College system (58 campuses).

How North Carolina Used the Education Stabilization Funds

While the state opted to provide the University of North Carolina system with Education Stabilization funds in all three years, the state provided its community college system with Education Stabilization funds only in fiscal year 2009. The state allocated the community colleges a one-time infusion of Education Stabilization funds in May of 2009 to make up for a lack of tax revenue necessary to meet payroll obligations. In 2010 and 2011, the state restored most of the funding to reach the levels it provided the community colleges in 2008. On the other hand, the state allocated the University of North Carolina system both a one-time infusion of Education Stabilization funds for payroll in June of 2009 and additional funds in fiscal years 2010 and 2011. The Office of State Budget and Management decided how to allocate

the Education Stabilization funds between the state's university and community college systems.

The North Carolina Community College System

As stated above, North Carolina allocated its community college system a one-time \$42 million infusion of Education Stabilization funds to cover payroll expenses in May of 2009. Due to lower-than-expected tax revenues, the state did not have the funds to fulfill the community colleges' payroll obligations with state general funds. As a result, the state provided a dollar-for-dollar replacement using Education Stabilization funds.

North Carolina divided this allocation of Education Stabilization funds among the 58 community college campuses based on each campus's relative share of certain staff salary and benefit costs for May of 2009. The state required the community colleges to use the funds to pay the salaries for particular types of employees including curriculum instruction, administration, student services, and college administration. The community colleges allocated the funds to these employee types based on federal guidance that required Education Stabilization funds be used for instructional purposes.

According to a North Carolina Community College official, the state had already exhausted all other options for making ends meet before deciding to distribute its Education Stabilization funds to the community colleges in May of 2009. The community colleges had reduced May and June salaries by 0.5 percent and had already used available Rainy Day Funds to balance their budgets. Had the state not allocated the Education Stabilization funds, North Carolina's community colleges would have had to institute extended furlough days for staff.

Though the community colleges did not receive Education Stabilization funds in 2010 or 2011, the state cut per-pupil state funding to its community colleges in those years. At the same time, enrollment at the community colleges rose dramatically from 2009 to 2011, increasing by 25 percent. As a result, the total funding the state provided to community colleges increased, despite the per-pupil funding cut, because the total number of students increased significantly. The community colleges also implemented significant tuition increases from 2009 to 2011, meaning they were able to increase revenue through tuition when state revenue was down.

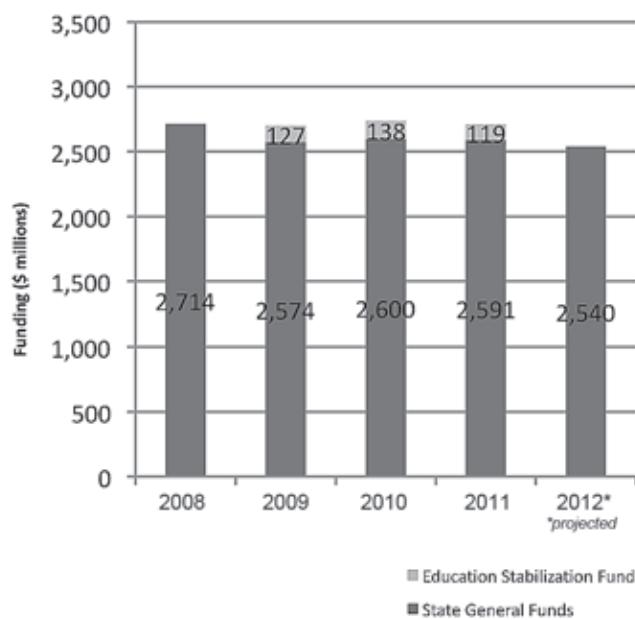
The University of North Carolina

The state provided the University of North Carolina (UNC) system with an infusion of \$85 million in Education Stabilization funds in June of 2009 to cover faculty payroll obligations for that month. In fiscal years 2010 and 2011, the legislature decided to provide UNC with additional, year-long allocations of Education Stabilization funds to compensate for state budget cuts. The institutions used these funds exclusively for faculty payroll, as required by the state. UNC received \$138 million in Education Stabilization funds in 2010 and \$119 million in fiscal year

2011. The system distributed the funds in payroll payments in two installments among the UNC campuses based on each campus's share of expected salary and benefit costs. The UNC system also implemented tuition and fee increases in fiscal years 2009, 2010, and 2011 with a cap on increases set by the institution's governing board. In academic year 2008-09, the campuses raised tuition by 1.2 percent on average for in-state students. In academic year 2009-10 the campuses increased tuition another 2.8 percent. Finally, for the 2010-11 school year, campuses raised in-state tuition 23.1 percent on average, including a supplemental tuition increase approved by the state legislature that was spread over two years.

UNC also made some additional cuts to specific programs. These cuts were necessary because the legislature made some permanent state budget cuts in addition to cuts to general fund support that were to be filled with Education Stabilization funds. Over the last five or six years, the state legislature has asked UNC to plan for potential cuts in state funding. As a result, the system already had in place a regular process to review and eliminate what the campuses deemed to be low-performing programs. The campuses made these cuts through a system called "management flexibility" under which the Office of State Budget and Management provides each campus with discretion to determine what specific cuts to make given their needs. In many cases, campuses chose to cut administration and support staff. The institutions were able to mitigate the impact of these cuts through increased tuition revenue resulting from the supplemental tuition increase in 2011.

North Carolina State General Funds and Education Stabilization Funds for Higher Education



Because the state opted not to provide community colleges any support from Education Stabilization funds in 2010 and 2011, the legislature chose to spare community colleges from funding cuts as significant as those they made during those years to the UNC system or K-12 education. The state reduced its funding for UNC and K-12 education in 2010 and 2011 and used Education Stabilization funds to make up for the reductions. The community colleges, on the other hand, relied solely on state support in 2010 and 2011, minimizing the size of budget cuts because the state could not rely on Education Stabilization funds to replace them. A community college official suggested that this may have protected them from even deeper cuts because the legislature chose to make UNC and the state's K-12 system the primary recipients of Education Stabilization funds.

Higher Education Funding Post-SFSF

North Carolina's institutions of higher education will face significant budget cuts in 2012 from 2011 levels. In crafting its 2012-13 biennial budget, the North Carolina legislature restored all of the reductions in state funding it had made in 2010 and 2011 due to the availability of the Education Stabilization funds and continued to appropriate funds using the 2009 levels as a starting point. However, the legislature did not restore any permanent cuts to specific programs like those discussed above.

Despite the fact that the legislature restored state funding when Education Stabilization funds were no longer available in 2012, the legislature ultimately cut \$414 million from UNC's 2012 operating budget compared to 2011 levels. However, the legislature did provide the UNC system some new funding for specific programs and to account for enrollment growth, meaning that the net cut will be \$345 million, or 13 percent, across the system. As a result, each UNC campus is working on a plan to deal with cuts to state funding, including cutting additional staff positions. The UNC Board of Governors has also established a modest tuition increase of 6.8 percent, on average, to soften the impact of the state funding cut. This increase includes some of the supplemental tuition increase approved in 2011 that some campuses chose to spread over two years. However, the increase will not fully offset the cut.

The state legislature will impose a 10.7 percent budget cut on the North Carolina Community College system in 2012

compared to 2011 levels. As a result, the institutions will eliminate courses as well as impose a \$10 increase in per-credit costs to \$66.50 — the largest one-year increase ever implemented. The community colleges have a strict open-door policy, meaning they accept all students who apply. As a result, they must attempt to continue to provide the maximum services possible to meet students' needs. At the same time, the system carefully considered its choice to increase tuition to ensure that students are still able to access higher education.

Unfortunately, increases to tuition have not meant increases to support for financial aid in North Carolina. The legislature hasn't boosted funding for North Carolina's financial aid system in several years, increasing the burden of tuition increases on lower-income students who are the main beneficiaries of the system. The state's financial aid system is funded by the state's Escheats fund for unclaimed property. Traditionally, only the interest earned from the fund supported need-based aid for community college and UNC students. However, in the past decade, the legislature has used money from both the fund's principal and earned interest to support financial aid, depleting the fund significantly.¹² To ensure that the financial aid program is on more stable footing, the legislature decided in 2011 to support the portion of the need-based aid program that pays for students attending UNC through a combination of general funds appropriations, lottery funds, and the Escheats fund. The portion of the program that pays for students attending community college still relies entirely on the Escheats fund.¹³ ♦

Ohio

Overview

- Ohio distributed its Education Stabilization funds among its institutions according to their share of state general funds.
- Ohio required its institutions to spend all of the funds on salaries and benefits with an emphasis on instructional staff.
- Ohio allocates funding to institutions as a block appropriation, not per-pupil. As a result, increasing enrollments in 2010 and 2011 meant that per-pupil funding in the system dropped significantly even though combined state and federal support remained at 2009 levels.
- Ohio's institutions will face dramatic state funding cuts in 2012 from 2011 levels because the legislature will not replace the temporary Education Stabilization funds with state funds.

The Ohio legislature provided its institutions of higher education with \$618 million in Education Stabilization funds over fiscal years 2010 and 2011 to make up for reductions in state funding of the same amount. The Education Stabilization funds allowed the state to keep its higher education budget at 2009 levels in 2010 and 2011, while also allowing the state to allocate more of its own funds to other, non-education parts of its budget. The institutions used the funds to support salaries and benefits. Ohio lawmakers also opted to provide institutions of higher education with federal Government Services funds under the State Fiscal Stabilization Fund in fiscal year 2011 to help maintain higher education funding at 2009 levels.

Fiscal year 2009 was a banner year for higher education funding in Ohio. From 2008 to 2009, state funding increased 11 percent. The maintenance-of-effort provision of the SFSF for higher education required states to use Education Stabilization funds to fill the gap between 2006 state funding levels and the higher of 2008 or 2009 levels. As a result, Ohio had to reach the extraordinarily high 2009 funding levels in 2010 and 2011, placing a strain on the state's budget.

The University System of Ohio is comprised of 14 universities with 24 regional branches, 23 community colleges, and more than 120 adult education centers.

How Ohio Used the Education Stabilization Funds

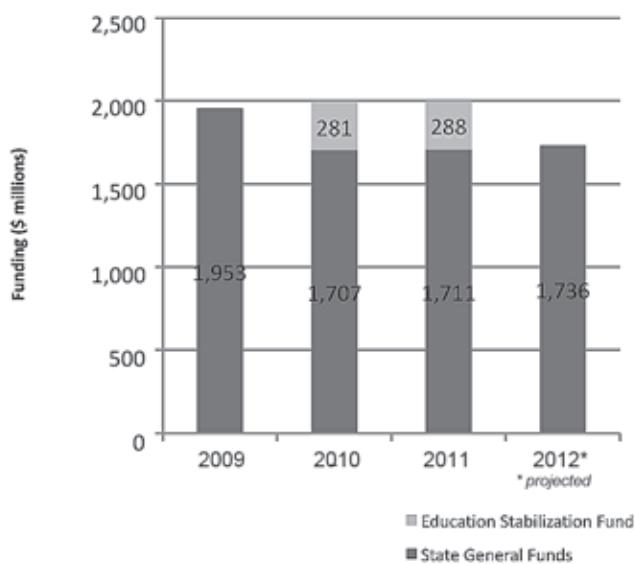
Ohio distributed its Education Stabilization funds among its institutions based on the share of state general funds each institution receives. Because Ohio uses a single fund-

ing formula to distribute state funds to all institutions, the legislature chose to add the Education Stabilization funds to the state funds in the formula, ensuring that every institution received a proportional amount of the federal funds. The institutions first received the funds in August of 2009 to reimburse costs for salaries for the prior month. After that, institutions received an even portion of the funds every month through June 2011 as part of their monthly state allocation to reimburse the previous month's salary obligations.

The Ohio Board of Regents instructed all institutions to use the funds for education and general salary expenditures based on federal guidance. Most institutions used the funds specifically for the salaries of instructional staff. However, if an institution received reimbursement for a month during which classes were not in session, the funds could be used on other education-related salaries like administration and student-support services. This requirement prevented institutions from using the funds for capital improvement projects, which the Regents did not believe was consistent with the federal guidance's stated goal of saving and creating jobs.

During 2010 and 2011, enrollment at Ohio institutions of higher education increased dramatically. Because the state allocates funding to institutions as a block appropriation, and not per pupil, increasing enrollments meant that per-pupil funding in the system dropped significantly even though combined state and federal support stayed the same as in 2009. Absent these funds, the institutions would have likely had to make difficult staffing decisions to make ends meet.

Ohio State General Funds and Education Stabilization Funds for Higher Education



In 2010 and 2011, the Ohio Board of Regents placed a 3.5 percent cap on tuition increases over two years. Without the Education Stabilization funds, it is likely that the Regents would have been pressured to lift the tuition cap and allow the institutions to pass the burden of the budget cuts onto students with tuition increases exceeding 3.5 percent. By 2011, most institutions had raised their tuition to the levels allowed under the cap.

Higher Education Funding Post-SFSF

Ohio's institutions of higher education will face dramatic funding cuts in 2012 because the legislature will not replace Education Stabilization funds with state funding. Ohio Governor Ted Strickland, who held office when the Education Stabilization funds were first distributed, is no longer in office. The current governor, John Kasich, does not intend to replace Education Stabilization funds avail-

able for the past three years with state funding in 2012 and believes that the federal funds should have been used for one-time expenses, not to support higher education operations at 2009 levels because the funds would not be available beyond 2011. This means that though state support will increase slightly from 2011 levels, overall support (now that the Education Stabilization funds are gone) will be below 2009, and therefore 2009, levels.

Even though Education Stabilization funds are no longer available, Ohio lawmakers don't plan to boost state funding to make up for them in 2012. Ohio lawmakers have set 2012 state funding levels for higher education at the same or slightly higher levels than in 2011. Additionally, most institutions will face a tuition increase cap for in-state undergraduate tuition, limiting how much revenue they can derive from tuition increases. However, caps do not apply to out-of-state or graduate student tuition. As a result, many institutions will increase tuition for those students at a much higher rate to make up for limitations on in-state tuition.

Additionally, Ohio institutions are working to develop efficiencies so they can provide the same services with less funding to more students in 2012 and thereafter. This will include shared programs or services across several institutions. Some institutions are considering staff layoffs or cutting services as methods of last resort. Alternatively, to reduce spending, institutions are encouraging some staff to take early retirement and will not replace those vacant positions. As another policy to promote cost savings and efficiencies at institutions, the state has implemented a few initiatives aimed at providing its elite institutions with more autonomy. At the same time, the state will provide them with less funding. This includes relief from state mandates like tuition caps and other controls over finances. The policy could help institutions cope with less state funding by developing their own mechanisms for raising revenue like higher tuition rates or additional fees. ♦

Wyoming

Overview

- Wyoming distributed its Education Stabilization funds via two formulas — one based on growth in student enrollment and the other based on each institution's share of total instructional facility square-footage.
- The \$58 million in Education Stabilization funds accounted for a substantial portion of renovation and modernization spending and helped to delay tuition increases.
- Wyoming institutions used a smaller portion of their funds to support staff salaries and benefits and library acquisitions.
- Wyoming's institutions are in a good financial situation moving into 2012 due to tuition increases and stable state tax revenues.

Wyoming institutions of higher education received Education Stabilization funds in state fiscal years 2010 and 2011. Though many analyses suggest that Wyoming did not face the same types of budget shortfalls that other states experienced during the economic downturn that began in 2008, this is not actually the case. While Wyoming did not face high levels of unemployment as a result of the downturn, the state did face a significant budget shortfall in mid-2009 due to changes in tax revenues derived from the state's commodity industry. Wyoming has no state income tax and instead relies mainly on tax revenue from the coal, oil, and gas industries, which fluctuates frequently. Anticipating a revenue shortfall for fiscal year 2009, then-Governor Dave Freudenthal proposed and the legislature approved a unilateral cut to current funding for all state agency budgets (except K-12 education, which is protected) of 10 percent, or \$280 million, across the board. As a result of this action, analyses of Wyoming's state budget do not recognize the shortfall Wyoming faced prior to Freudenthal's 10 percent cut because the cut occurred mid-year.¹⁴ The 10 percent across-the-board cut is permanent in that it represents a new spending baseline for the state — the legislature does not plan to restore those funds in the near future.

Wyoming's higher education system is divided into two parts — the University of Wyoming and the Wyoming Community College System. Each system used the funds in slightly different ways based on how the state allocated the funds.

How Wyoming Used the Education Stabilization Funds

Wyoming's governor decided to distribute Education

Stabilization funds via two formulas — one based on an enrollment growth model that awards more funds to institutions where enrollment growth has been higher (approximately \$14 million) and the other based on each college's share of the square footage of all instructional facilities (approximately \$45 million) within the state's higher education system. Funds were distributed to individual institutions on a reimbursement basis after the institutions incurred expenses. Ultimately, the state returned \$10 million of the \$67 million it was allocated under the State Fiscal Stabilization Fund to the federal government because it did not need the funds to reach 2009 spending levels. For both systems, the state used Education Stabilization funds as a dollar-for-dollar replacement of state funding to reach 2009 spending levels after the initial permanent 10 percent cut the state legislature enacted in 2009. While both the University of Wyoming and the Wyoming Community Colleges used the majority of their funds for facility maintenance and renovation as specified by the state, they used their enrollment growth funds in slightly different ways. Below, we describe how each institution coped with the above-mentioned budget cut and how they used their Education Stabilization funds.

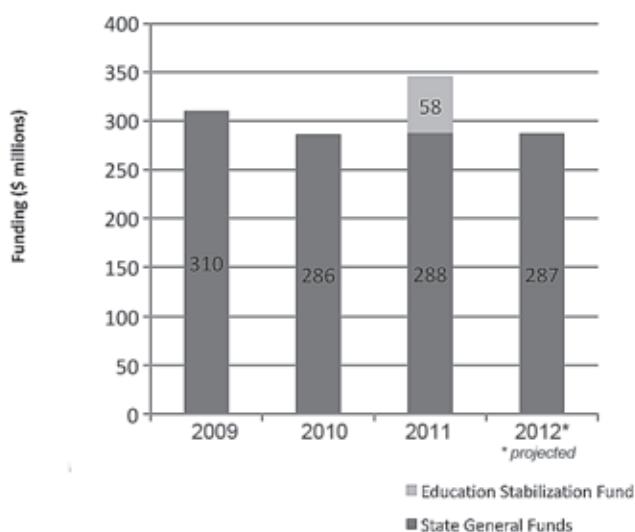
The University of Wyoming

Before the University of Wyoming received Education Stabilization funds, it had to adjust its expenditures to account for the mid-year 10 percent funding cut described above. This cut required the institution to cut some jobs, abolish some units like its geology museum and its meeting center, and freeze library acquisitions. According to university officials, these activities were appropriate given the mission of the school. In essence, the 10 percent cut forced them to reprioritize their resources on core activities only.

The University of Wyoming received \$5 million in Education Stabilization funds through the state's enrollment growth formula. It used these funds to partially make up for the loss of state support for library acquisitions in 2011, which was frozen as a result of the previous 10 percent cut. Additionally, these funds allowed the university to defer a planned 5 percent tuition increase in academic year 2011. The Board of Trustees approved that tuition increase in response to state funding cuts as part of two consecutive 5 percent tuition increases planned for academic years 2011 and 2012. Because the institution chose to use the Education Stabilization funds to defer the tuition increase in 2011, the University of Wyoming will instead institute a 10 percent tuition increase in 2012.

The University of Wyoming also received \$28 million in Education Stabilization funds for modernization and renovation according to the formula the state developed that allocated funds based on an institution's share of instructional facility square footage. The university engaged in a long planning process to ensure that the use of these funds was in keeping with federal guidance under the SFSF — mainly that funds not be used for ongoing expenses that would create a funding cliff. As a result, the institution primarily used the funds in 2011 to make facilities improvements to instructional spaces like new hoods in the campus's biology and chemistry labs.

Wyoming State General Funds and Education Stabilization Funds for Higher Education



University of Wyoming officials stated that these uses of their Education Stabilization funds were in line with federal guidance to use the funds for one-time expenses and helped them to avoid ongoing expenditures like payroll. Similarly, it allowed the university to compensate for reductions in state funding for maintenance activities and avoid deferred maintenance. Without these funds, the University of Wyoming would not have been able to maintain its commitment to its infrastructure.

The Wyoming Community College System

Unlike the University of Wyoming, the Wyoming Community College System did not increase tuition to make up for the 10 percent cut to statewide higher education funding made in 2009. In fact, the governor's office required the system to keep tuition constant as a condition of receiving the Education Stabilization funds.¹⁵ To cover costs absent a tuition increase, the Wyoming Community College System used the \$8 million in Education Stabilization funds it received under the state's enrollment growth formula to support faculty salaries and benefits. The Community College Commission distributed the Education Stabilization funds to each campus based on its share of enrollment growth in the preceding year and campuses used the funds to reimburse a certain proportion of monthly payroll obligations for basic contract costs for faculty members. These funds helped the colleges maintain education services as increases in student enrollment (ranging from 7 to 28 percent by campus) in academic years 2009, 2010, and 2011 meant that each campus had to hire more faculty members to meet demand for courses.

The Wyoming Community College System divided its \$17 million Education Stabilization fund allocation under the state's modernization and renovation formula among its seven campuses based on their share of instructional facility square footage. All maintenance activities were approved by the State Construction Management Division and included activities like replacing the floor in the dental hygiene lab, upgrading fire alarm and suppression systems, and remodeling central lecture halls.

Higher Education Funding Post-SFSF

Wyoming's institutions of higher education will enter fiscal year 2012 on relatively stable financial footing thanks to a combination of good planning during budget cuts and additional support from tuition increases. As discussed above, Wyoming preemptively addressed a projected bud-

get shortfall in 2009 with a 10 percent cut to all state spending in 2009. That cut will not be restored going forward for all agencies and programs. However, the state plans to restore any cuts in state aid due to the availability of the Education Stabilization funds with state funding in fiscal years 2012 and beyond, keeping funding levels for both the University of Wyoming and the states' Community Colleges at prior-year levels.

Even so, the University of Wyoming will implement a 10 percent increase in tuition in 2012. The additional revenue from this increase, along with a supplemental \$2 million appropriation from the state, will sustain the university's library acquisition budget. The legislature has also decided to cut annual funding for modernization and renovation. Though the state legislature allocated the university more funding for modernization and renovation in 2011 than it otherwise would have due to the availability of Education Stabilization funds, the timing of those funds will mean that the university will have to rely on internal funding for facilities until the end of fiscal year 2012. When the budgeting process for the 2013 and 2014 biennium starts, however, the university will be able to request an increase in maintenance funds.

In general, the University of Wyoming is well situated for 2012 and beyond. It will not face any more funding reductions and has already successfully won some supplemental state funding. Additionally, tuition and fee revenues have increased as a result of enrollment growth. Further, the cuts the university made in response to the initial 10 percent government-wide budget cut forced it to

reprioritize its efforts to fit within its budget constraints. However, the loss of other ARRA funds, like research funding for energy sources, will have a larger effect on the university than the loss of the Education Stabilization funds. Without these federal research funding sources, the university will likely have to eliminate some of their research faculty and other staff.

The Wyoming Community College System will also increase tuition by 4.5 percent starting in the 2012 academic year.¹⁶ Increases in enrollment, coupled with this tuition increase, will put the system on solid financial footing moving forward. Officials at the Wyoming Community College Commission are confident that the state legislature will not make any further cuts to the community college system given that revenue is projected to be sufficient to cover costs over the upcoming biennium.

Though tuition increases are unpopular and place a greater burden on students and families in difficult economic times, Wyoming has a unique merit-based scholarship program available to residents that will help dampen the effects of the tuition increases. The Hathaway Scholarship Program is not funded with state general funds and is not subject to the annual budget process. Instead, it is funded by a \$450 million endowment funded by mineral royalties collected by the federal government. Moreover, the size of the endowment remains strong and has been unaffected by the economic downturn. According to one official, the average Hathaway scholarship covers 143 percent of tuition and fees and is available to all residents who meet its merit requirements regardless of financial need.¹⁷ □

Notes

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2 For more information on state-by-state allocations of the State Fiscal Stabilization Fund, see:

<http://www2.ed.gov/programs/statestabilization/sfsf-state-allocations.pdf>.

For information on each state's State Fiscal Stabilization Fund application, see:

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5 See Section 14005 of the American Recovery and Reinvestment Act of 2009, available: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:hier.txt.pdf

6 If a state is unable to maintain state education spending at 2006 levels, the state must apply to the Department of Education for a waiver and maintain education funding in 2009, 2010, and 2011 at the same proportion of total state spending as it was in 2006.

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8 *Higher Education Flexibility Act of 2010*, Senate Bill 10-003. (2010). Available: http://www.leg.state.co.us/CLICS/CLICS2010A/csl.nsf/fsbillcont3/E7D30EB79557E237872576A80026BoCD?Open&file=003_enr.pdf

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13 *Current Operations and Capital Improvements Appropriations Act of 2011*, Session Law 2011-145. (2011). <http://www.ncga.state.nc.us/Sessions/2011/Bills/House/HTML/H2009v9.html>

14 For example, see the Center for Budget and Policy Priorities' estimates of state budget gaps at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=711>

15 Borchardt, Jackie. "Wyoming colleges slow to spend stimulus," *Trib.com*, June 22, 2011. Available: http://trib.com/news/state-and-regional/article_c501a18b-doc3-5e49-9e54-04bc57a031b5.html

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17 See more at: <http://www.hathawayscholarships.com/>

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